Executive Summary

Audit Committee Meeting, September 20, 2022
Board of Governors Meeting, September 21, 2022

THE OFFICE OF THE INTERNAL AUDITOR

The Office of Internal Audit focuses its attention on areas where it can contribute the most value by working with the organization to reduce risk, improve the control infrastructure and increase operational efficiencies. The Chief of Internal Audit's responsibilities includes oversight of Internal Audit as well as Enterprise Risk and Internal Control.
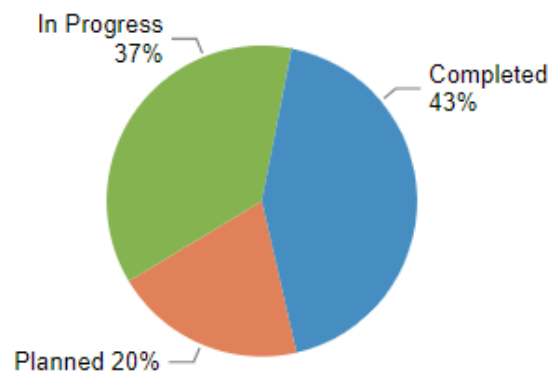
1. Internal Audit

Overview of audit progress - Internal Audit follows a risk-based quarterly rolling plan approach in developing engagements and monitoring progress. As we review risks and consider operational challenges, we re-examine our plan and confirm that it continues to provide the expected assurance and that audit resources remain appropriately focused.
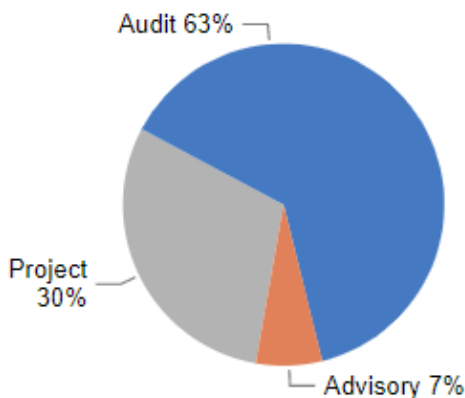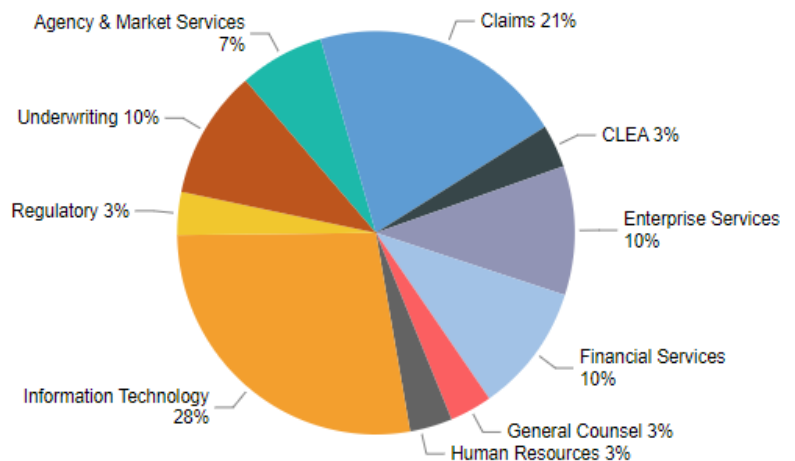
Apr1 2022 to Mar 31 2023

Period Progress	Count
Completed	13
In Progress	11
Planned	6
Total	**30**

Plan Progress

In Progress 37%
Completed 43%
Planned 20%

Engagements by Category

Audit 63%
Project 30%
Advisory 7%

Engagements by Area

Agency & Market Services 7%
Claims 21%
Underwriting 10%
CLEA 3%
Regulatory 3%
Enterprise Services 10%
Information Technology 28%
Financial Services 10%
General Counsel 3%
Human Resources 3%

CITIZENS
PROPERTY INSURANCE CORPORATION

Executive Summary

Engagements completed - Following the last meeting we completed work on seven Internal Audit engagements:

- **Applications and Infrastructure Standards Conformance (AISC) Audit -** With the audit, Internal Audit validated whether the configuration of applications and infrastructure components is in alignment with Citizens' information security policies, standards, and leading practices such as the National Institute of Standards and Technology (NIST) and Center for Internet Security (CIS). The scope of the audit included a focus on high-risk infrastructure configuration hardening and application controls. Internal Audit noted that the organization should formally define and implement comprehensive information systems hardening standards and guidelines; and should reassess and recalibrate the Guidewire system access role design to conform with the principles of least privilege and segregation of duties. Details of our observations were discussed with management and corrective action is in progress.

- **Data Retention and Destruction Advisory** - Upon request, Internal Audit reviewed the retention and destruction procedure used for electronic data residing within Citizens' systems. Internal Audit also reviewed the final disposition of the data/records before the planned retirement and decommissioning of the legacy systems. Results from the review indicated that the record retention period established for electronic policy data complies with applicable federal and state laws, rules, and regulations. In addition, the workflow and checklist used to document the final disposition of electronic policy data align with current industry-leading practices. Some improvement opportunities were highlighted which could potentially strengthen the records retention program and ensure proper disposition of data/records.

- **ELT Metrics Audit**- Internal Audit assessed the adequacy of data collection and control procedures applied in collating the ELT Metrics Report. The ELT Report is produced monthly and is comprised of data from twenty-six (26) business units. Audit work included the review of the metrics data source, accuracy, and consistency of the data presented from the business units and EPM. The audit confirmed there are effective business processes and controls in place to ensure adequate management, validity, accuracy, and data quality of the ELT Metrics Report.

- **Holistic Inspection Program Advisory** - The objective of this engagement was to provide advisory services in support of the property inspection program. The advisory work included an evaluation of the inspection selection process, vendor reconciliation and payment process, and metrics used to track and monitor the inspection results. Our work indicated that reasonable property inspection criteria have been established to select policies requiring a property inspection and adequate controls appear to be in place to ensure payments remitted to the inspection vendors for completed inspections are accurate. In addition, a property inspection dashboard has been created which enables management to track and monitor key performance indicators to ensure program objectives are met. An improvement opportunity was identified and

Executive Summary

shared with management for consideration to potentially increase the effectiveness and efficiency of the program.

- **Indemnity Check Theft Targeted Audit -** OIA was notified by management of a possible check theft and check alteration scheme. Internal Audit, in collaboration with the Inspector General, participated in a cross-functional work group and discussed the possible fraudulent checks and alterations. This group included members from Claims, SIU, Claims Vendor Management, Claims Operations, and Accounting & Finance. Work was performed in two phases. First, Internal Audit validated that internal check preparation and printing processes and controls were not circumvented. Internal Audit validated that these indemnity checks were received, maintained, and distributed to outside counsel unaltered. Second, Internal Audit gained an understanding of the mailing procedures performed by outside counsel. Internal Audit was able to validate that all checks were prepared accurately and delivered to the correct address. Internal Audit's report was provided to the Office of Inspector General, who engaged law enforcement following confirmation of the loss.

- **Integrated Vendor Invoice Submission System Implementation** - Internal Audit was requested to provide advice in support of the implementation of VIP Software (an invoice management and submission system) to help automate the processing and payment of vendor invoices. Phase 1A of the application resulted in the successful onboarding of eight (8) Independent Adjuster firms assigned to Non-Weather Water claims. Internal Audit participated and monitored weekly meetings, training development sessions, internal training, and two vendor training sessions, and ensured that the training sessions and job aids contained the necessary steps to understand the application. Conferences with Learning and Development as well as with Product Development were held during the configuration and implementation process. Familiarity with the application was gained through the process to assist in potential future audits. Internal Audit will continue to monitor the implementation of the VIP software solution as necessary.

- **SB 76 Post Implementation Audit** - Internal Audit assessed the controls, processes, procedures, and workflows implemented by management in response to the requirements set forth by Senate Bill 76 (SB76), which became law effective July 1, 2021. The audit focused on the SB76 components that impacted claims operations, as well as the potential benefits of the bill. No exceptions were noted in the different parts of the process handled by the respective teams or units. Improvement opportunities to enhance the overall efficiency of the process were identified and were shared with and welcomed by management.

Engagements in progress - We are currently working on eleven engagements:

- **Citizens FMAP/Clearinghouse Eligibility ITN** - Citizens' Policy Eligibility is a proposed concept to combine the current Clearinghouse and FMAP capabilities into a

Executive Summary

comprehensive solution that provides the consumer with available options for coverage outside of Citizens while enhancing Citizens' ability to validate eligibility under current rules and eligibility statutes. The future workflow objective is to simplify the experience. Internal Audit will provide project advisory services in support of the Invitation to Negotiate (ITN) procurement to ensure the appropriate project management elements are in place. In addition, Internal Audit will provide process and control advice, where needed, as the ITN project evolves.

- **Claims Litigation Management System Procurement -** Citizens relies on 100+ outside defense firms to provide claims-related legal defense counsel services. Citizens' ability to manage complex legal bills submitted by contracted defense counsel representing Citizens in litigated matters continues to be an integral process in support of controlling costs and ensuring a strong financial operating environment. Citizens will be issuing an Invitation to Negotiate (ITN) to request competitive sealed replies from firms capable of providing a web-based Software-as-a-Service (SaaS) Litigation Management System (System). The proposed system will be utilized to manage Citizens' litigated and disputed claims activity and other legal matters customary to property and casualty insurance carriers. Internal Audit is providing project advisory services in support of the solicitation of the application to ensure the appropriate project management elements are in place to enhance the likelihood of a successful project.

- **Cloud Migration Project** - Internal Audit is providing project advisory services in support of the migration of on-premises applications to the cloud. The objective of this project is to move Citizens' physical, on-premises infrastructure to a cloud-based Infrastructure-as-a-Service (IaaS) solution that provides an ideal platform to support Citizens' unique business model.

- **HB 1079 Post Implementation Audit** - House Bill 1079 was introduced during the 2021 legislative session and signed into law, becoming effective July 1, 2021. The bill makes several changes relating to the evaluation, management, and oversight of competitively procured contracts for commodities and contractual services. Internal Audit monitored the development of initiatives to comply with the bill's requirements and has been asked by Vendor Management and Purchasing (VMAP) to perform a post-implementation audit given the bill's impact on the processes and systems.

- **Information System Technology Policies Review** - The Information Technology function has policies, standards, and guidelines in place to establish requirements for handling data and applications in Citizens. These documents are foundational elements that are based on leading practices. Aside from the management of information technology these governing documents support cybersecurity. Internal Audit will assess the current classification of governing documents by type (policy, standard, procedure, or guideline), relevance, completeness, consistency, as well as administration, conformance verification, and training.

Executive Summary

- **Legislative Update Implementation** - Following this year's legislative sessions, bills were passed and signed into law that affects Citizens' operational processes which will need to be readied and implemented. Citizens monitors State of Florida legislative changes during the session, and once bills are signed impacting Citizens' processes, project teams are assembled to interpret and implement these regulatory changes. Internal Audit plans on providing consultative advice related to processes and controls of impacted business areas and monitoring the project management process to ensure effective and timely escalation and handling of project issues.

- **PCard Targeted Audit -** Citizens has elected to use Purchasing Cards (PCards) as the best payment method for employees approved to use a credit card for certain business expenses. The PCard-type credit card allows for increased control over spending and provides Citizens with real-time reporting capability. Restrictions are placed on the cards that limit the types of charges allowed and limit the amount of credit that may be extended in any monthly billing cycle. In correlation with Internal Audit's Anti-Fraud analytical activities, periodic targeted Audit validation testing will be performed. The objective of the targeted audit will be to ensure adequate processes and controls are in place for approving and monitoring PCard transactions.

- **Quality Monitoring Targeted Audit** - Quality Improvement Management reviews employee calls and views screen navigation for quality assurance purposes. Personal and/or sensitive data can be captured as part of these systematic recordings. Recording/intercepting of audio and/or video creates potential privacy concerns if not properly applied. The objective of the audit is to assess the recent enhancements made to comply with Federal and State statutes related to the recording/intercepting of audio and/or video.

- **Suspense Account Management Audit** - A suspense account is an account in the general ledger that is used to temporarily store transactions that require further analysis before a permanent assignment in the records can be made. The use of a suspense account allows time to research the nature of a transaction while still recording it on the company's books. These types of accounts could include monetary transactions such as cash receipts, cash disbursements, and journal entries. Given the nature of suspense accounts, transactions should only be in these accounts for a short period of time. Internal Audit will assess the purpose and procedures in place to manage suspense accounts, review the reconciliation process, assess the current make-up of the suspense account balances and aging of transactions, and review a sample of historical reconciliations for proper handling.

- **Vulnerability and Patch Management Audit** - The purpose of this audit is to review vulnerability and patch management policies, procedures, and practices. These controls ensure timely closure of security gaps to prevent exploitation thereof. Cyber risk management includes identifying, evaluating, resolving, and reporting security

Executive Summary

vulnerabilities in systems and software. The process and corresponding threat mitigation are important to reduce the attack surface.

- **Regulatory Support (Market Conduct Exam)** - Internal Audit, in its liaison role, is responsible for coordinating with the Florida Office of Insurance Regulation (OIR) Market Conduct examiners and the State of Florida Auditor General's auditors. The OIR Market Conduct exam is performed every two years and the Office will begin this year's Market Conduct Exam in September and finish by February 2023. Our coordination efforts include setting meetings, helping with planning, tracking the completion and delivery of information requests, and overall ensuring the examiners receive the correct information timely.

Engagements Planned - The following audit engagements are scheduled to commence during Q4 2022:

- **Bulk Intake Private Insurer Policies (BIPIP) Audit - T**he Bulk Intake Private Insurer Policies (BIPIP) process is utilized for new policy applications as a result of property insurance carrier insolvencies. The BIPIP process is a streamlined process to handle the inflow of policies from the private marketplace which includes scaled back up-front documentation requirements and/or other various provisions as set forth by the Office of Insurance Regulation. In 2022 there have been 4 insolvencies and an OIR consent order allowing 3 companies to cancel 68,000 policies. As a result, an additional 230,200 policies have entered the marketplace, with Citizens estimated to pick up between 25% and 30% of the policies. The objective of the audit will be to evaluate and assess the adequacy and effectiveness of controls related to the BIPIP process to ensure management is mitigating risk within the constraints of the order.

- **Claims Litigation Triage Audit** - The Claims Litigation Department continues to experience a high rate of litigated claims. Due to the litigious Florida environment and the increasing Policies in Force (PIF) count, new litigation is more than 1,000 lawsuits a month. The Triage Unit plays an important role in the litigation management process as it is tasked with the preliminary review of incoming litigation, the initial handling recommendation of lawsuits, and the assignment to the corresponding handling unit. The objective of the audit is to assess the effectiveness and success of the controls, practices, and processes applied by the Triage Unit in the evaluation and assignment of litigated claims**.**

- **Investment Portfolio Management Audit -** Investment Portfolio Management directs the oversight and monitoring of Citizens' external investment managers, compliance with Citizens' investment policies, and long-term financial planning. Citizens' total portfolio market value for May 2022 was $9.29 billion of which approximately 90% ($8.30 billion) is managed by 10 external investment managers. Citizens' investment policies govern the types of assets in which Citizens can invest. Because Citizens must be able to make immediate payment of claims in large dollar quantities, liquidity and

Executive Summary

preservation of principal are the core constructs of these investment policies. When considering the multiple portfolio management firms and the volume of purchases and sales made in any given period, the risk of non-compliance is increased and may result in insufficient liquidity and/or loss of principal. The objective of the audit will be to evaluate and assess the adequacy and effectiveness of controls related to investment portfolio management.

- **Mobile Computing/Remote Computing Audit** - Internal Audit will provide assurance towards key controls expected to be in place around mobile/remote computing. After transitioning to alternative working arrangements following the pandemic, and with the transition to cloud computing, mobile/remote computing is now the standard rather than the exception in how users access information systems. Categories of key controls include remote, access, centralized device administration, endpoint security, data protection, cybersecurity monitoring, and training.

- **Third-Party Technology Risk Audit** - Citizens has several vendors and business partners integrated into their business processes. Some of these vendors and business partners may lack sufficient controls to protect Citizens' data. An audit of third-party information technology selection, safeguards, and oversight will evaluate controls that are in place to mitigate the risk of brand damage, litigation, business and revenue loss, and cost implications associated with vendors. Areas in scope will include sourcing, due diligence (reputation, financial health, cybersecurity, reliance on sub-vendors), risk assessment, contracting, monitoring (performance and review of assurance reports), issues resolution, and termination.

- **Unified Communication as a Service (UCaaS) Project** - Internal Audit will provide project advisory services in support of the UCaaS and CCaaS (Customer Communication as a Service) initiatives. Citizens management is interested in obtaining these services to improve and modernize communication and call center systems. Reliable telephony and contact center services are important not only to daily business operations but more significantly to Citizens' call centers which support agents and policyholders.
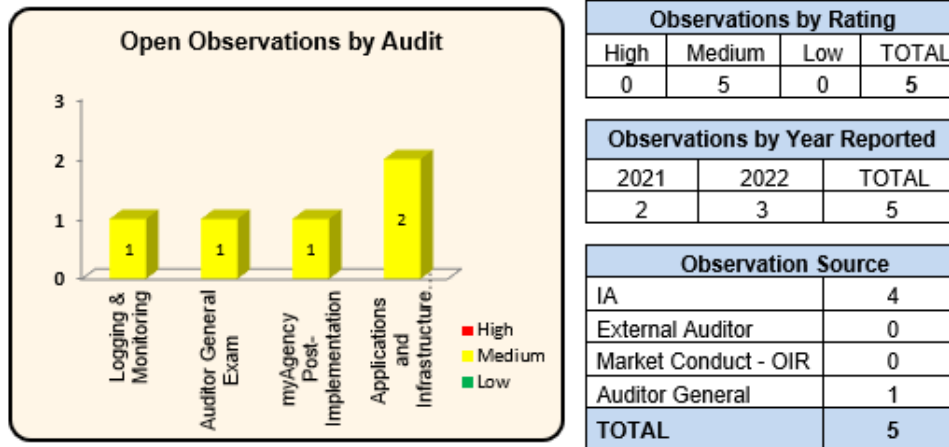
Resources

Internal Audit has a vacancy for an Audit Manager that specializes in property insurance.

Open Audit Observations - Internal Audit maintains a database containing reported audit observations, recommendations, management action plans, and target completion dates originating from audits, reviews performed by the external auditor, and regulatory exams. Open items receive priority focus from management and are generally addressed within an agreed period. We are currently tracking five open observations of which none are rated as high impact. The chart below provides information on the number of current open

Executive Summary

observations over a period including the observation ratings, source of observation, and year reported.

Observations by Rating

High	Medium	Low	TOTAL
0	5	0	5

Observations by Year Reported

2021	2022	TOTAL
2	3	5

Observation Source

IA	4
External Auditor	0
Market Conduct - OIR	0
Auditor General	1
TOTAL	**5**

2. Enterprise Risk

The Enterprise Risk (ER) team facilitates, enables, and partners with Risk Champions and management throughout Citizens to identify, assess, and mitigate risks. Citizens' risk profile reflects a comprehensive view of risks from various perspectives including strategic, operational, project, and emerging risks.

Strategic Risk - In 2022, sixteen strategic risks were identified and assessed by estimating the potential impact or severity level the risk event may have on Citizens, should the event occur, and considering the probability of occurrence.

- 43% (7) of the risks were rated high, 25% (4) rated medium, and 31% (5) were rated low.
- Mitigation plans are in place and executed as needed.
- The Risk Steering Committee, the Executive Leadership Team (ELT), Risk Owners, and ER continue to closely monitor Citizens' top risks.

Strategic Risks

High	7	43.8%
Medium	4	25.0%
Low	5	31.3%
Total	**16**	**100%**

Market instability remains Citizens' top risk as unstable market conditions continue to adversely impact private carriers' continued participation in the Florida insurance market or geographic locations due to capital limitations, reinsurance capacity, and pricing, or insolvency resulting in fluctuations in Citizens' costs, financial condition, exposure, and the number of policies in force (PIF). Citizens continues to focus on ensuring the organization remains well prepared to respond to the rising PIF. ER and the Strategic Evaluation Group are in the process of updating the Market Conditions Scenario Risk Assessment to ensure that mitigation strategies remain relevant and continue to address the most significant cross-functional risks.

ER will begin preparing for the 2023 strategic risk assessment during Q4 with the ELT.

Executive Summary

Operational Risk - ER facilitates and enables Risk Champions, Risk Owners, and management to identify and assess operational risks for up to 81 of Citizens' business processes defined by the OIA process universe. Risk descriptions, mitigating activities, and risk assessments are updated periodically to ensure the operational risk profile remains relevant and timely.

As of August, 332 operational risks have been identified and assessed:

- 83% (277) of residual risks are rated low and 17% (55) are rated medium. Currently, there are no high-rated operational residual risks.
- 14 operational risk assessments were recently completed, and 10 risk assessments are currently in progress.
- Protiviti is on track to complete the risk and controls consultative engagement for 8 IT processes.

Operational Risks

Medium	55	16.6%
Low	277	83.4%
Total	332	100%

For Q3 and Q4, ER will focus on facilitating operational risk assessments and continue to train business areas on self-service capabilities for risk assessments.

3. Internal Control

Areas of Focus	Status
Control Self Assessments	• 2022 Control Self-assessments (CSAs) are on track to be completed by year-end. • 10% of the CSAs are completed or in the final review stages. • IC is exploring opportunities to automate portions of CSA validation steps for select primary controls.
Quality Reviews	• Protiviti control review of 8 IT processes is nearing completion. • Quality reviews in progress to confirm accuracy and adherence to standards. • In Q4, the IC team will perform quality reviews of control self-assessment results.
Self-Service Capabilities	• Control self-assessment documents and results are housed in AuditBoard. • 100% of Control Champions trained on how to perform a self-assessment in AuditBoard. • Continuing to train business areas on self-service capabilities for updating process narratives.

CITIZENS
PROPERTY INSURANCE CORPORATION

Executive Summary

In Q3 and Q4, the IC team is focused on oversight over the completion of the 2022 control self-assessments (CSAs); performing quality reviews to ensure the assessments adhere to standards; and promoting self-service capabilities to Control Champions, Owners, and management.

Risk and Control Self-Service Capabilities

AuditBoard, an integrated governance, risk, and control (GRC) system provides a centralized repository of risk and control information, assessment results, and various dashboards. Self-service capabilities are currently available within the Control, Narrative, and Risk modules for risk and control owners, champions, and management.

Self-Service Capabilities
- View and update process narratives and flowcharts   - Access primary control information   - Perform the annual control self-assessments for primary controls   - Identify and record risks   - Assess risks   - Document mitigation plans   - Access reference materials including the frameworks, job aids, how-to videos, and sampling guidance   - Access the Risk Steering Committee Charter, minutes, meeting materials, and risk acceptance documentation (restricted to select individuals)   - Access project and scenario risk assessment supporting documents and executive summaries (restricted to assessment participants and management)   - View risk and control dashboards (implementing in phases)